

## **Assembly Bill 8 (Nuñez)**

### **Preliminary Results of Gruber Microsimulation Model**

Assembly Bill 8 proposes fundamental improvements to the health care delivery system in California, including increasing transparency and quality, containing health care costs, expanding access to public coverage, reforming the private insurance market, and creating a statewide purchasing pool as a partial means to accessing affordable private coverage.

A key prerequisite to the Legislature's decision making on Assembly Bill 8 is estimating the changes that might occur given the policies proposed in the bill. With support from the California Healthcare Foundation, Dr. Jonathan Gruber from the Massachusetts Institute of Technology has modeled AB 8. Dr. Gruber's microsimulation modeling is similar in approach to that used by the Treasury Department and the Congressional Budget Office.

The preliminary results of that modeling have been completed and are summarized below.

#### **How Many of the Uninsured Gain Access to Coverage Under AB 8?**

The Gruber model uses Current Population Survey data, adjusted by California Health Interview Survey Data. The model estimates a total of 4.9 million Californians under age 65 are uninsured at any given point in time.

Of the 4.9 million uninsured, AB 8 would cover an additional 3.4 million or 69% of the uninsured. Of the 3.4 million that would gain access to coverage, 2.74 million are adults and 620,000 are children.

The remaining uninsured could seek access to coverage through the reformed individual market proposed in AB 8 or the existing health care safety net. The bill calls for covering the remaining uninsured within 5 years of implementation of AB 8.

#### **Establishment of Statewide Purchasing Pool**

AB 8 creates the California Cooperative Health Insurance Purchasing Program (Cal-CHIPP) as a statewide purchasing pool to be administered by MRMIB, to negotiate and contract with carriers to provide health insurance for eligible workers and dependents. Approximately 3.23 million people would enroll in Cal-CHIPP according to the Gruber model estimate.

#### **Minimum Employer Spending**

AB 8 establishes a minimum health care spending level for all employers except the following:

- Businesses that have been operating for 3 years or less.
- Businesses with less than 2 employees
- Businesses with a payroll of less than \$100,000.

All employers would have the option of either spending 7.5% of total Social Security wages (capped at \$97,500) on health expenditures or paying an equivalent percentage of payroll into the California Health Trust Fund. This spending choice would be made for all full-time employees (30 hours a week or more) and for part-time employees (less than 30 hours a week).

On average, California employers that spend for health care for their employees now spend 13.8% of Social Security wages on employee health care or approximately \$79.4 billion on employee health care. 328,000 firms that employ 1.5 million workers in California do not make any contribution for employee health care.

Under AB 8, net new employer spending by establishing a minimum spending level is estimated to be \$3.9B.

### **Affordability**

Workers and their families with incomes below 300% of the federal poverty level are eligible for subsidies in Cal-CHIPP or are eligible for assistance with group coverage premiums. In addition, premiums for people with incomes above 300% of the federal poverty level are subsidized. The Assembly has asked its consultants at the Institute for Health Policy Solutions (IHPS) to model various cost sharing scenarios. 2 examples of those scenarios are attached.

It is important to note that these are estimates – under AB 8, the Managed Risk Medical Insurance Board is responsible for contracting with health plans, establishing benefits, and cost sharing structures in Cal-CHIPP.

### **Where Do People Go Under AB 8?**

<b>Insurance Through...</b>	<b>Before</b>	<b>After</b>	<b>(in millions)</b>	
	<b>AB 8</b>	<b>AB 8</b>		
	<i>Total</i>	<i>Total</i>	<i>No. Change</i>	<i>% Change</i>
Medi-Cal or Healthy Families Coverage	6.6	5.8	-0.8	-12%
Group Coverage	18.8	20.3	1.5	8%
Individual Market	2.1	1.5	-0.6	-29%
Cal-CHIPP (new pool)	0	3.2	3.2	
Uninsured	4.9	1.5	-3.4	-69%
<b>Total</b>	<b>32.4</b>	<b>32.3</b>	<b>-0.1</b>	<b>0%</b>

**Fiscal Effect**

The model projects that AB 8 would generate sufficient funding through employee premiums, employer contributions and state and federal funds to pay for the cost of the program and maintain a \$380 million reserve.

**Significant Tax Savings Through Section 125 Plan**

AB 8 requires all employers to institute a Section 125 plan. As evidenced in the attached examples, significant premium savings result when worker premiums are sheltered from state and federal tax. In addition, employers and employees save \$1.1B in federal FICA as a result of instituting the Section 125 plans.

## Fiscal Summary

	Cal-CHIPP (Total)	Public Coverage and Premium Assistance (in millions) (Increase)	Total
Cost of Coverage:	\$ 7,440	\$ (1,010)	\$ 6,430
Cost of Premium Assistance:		\$ 1,760	\$ 1,760
State Income Tax Revenue Loss:	\$ 110		\$ 110
<b>TOTAL COSTS:</b>	<b>\$ 7,550</b>	<b>\$ 750</b>	<b>\$ 8,300</b>
<b>LESS Revenues:</b>			
Individual Contributions:	\$ 2,760	\$ (60)	\$ 2,700
Federal Matching Funds:	\$ 640	\$ 300	\$ 940
Employer Payroll Fees:	\$ 5,040		\$ 5,040
(Transfer):	\$ (510)	\$ 510	\$ -
<b>TOTAL REVENUES:</b>	<b>\$ 7,930</b>	<b>\$ 750</b>	<b>\$ 8,680</b>
<b>NET STATE COST (SAVINGS)</b>	<b>\$ (380)</b>	<b>\$ -</b>	<b>\$ (380)</b>

# How Much Will Employees in the Pool Pay Per Month for Basic Coverage?

## Single Worker with No Dependents

Income Relative to Poverty Level (%FPL)	Annual Income	Before Tax Savings, Worker's Monthly Payment	After Tax Savings, <b>Worker's</b> <b>Monthly</b> <b>Payment</b>	Worker's Payment (after tax savings) as a Percent of Income
100%	\$10,210	\$0	\$0	0.0%
200%	\$20,420	\$51	\$37	2.2%
300%	\$30,630	\$102	\$72	2.8%
400%	\$40,840	\$112	\$75	2.2%
500%	\$51,050	\$112	\$64	1.5%

# How Much Will Employees in the Pool Pay Per Month for Basic Coverage?

## Married Worker with Two Children and Non-Working Spouse

Income Relative to Poverty Level (%FPL)	Annual Income	Before Tax Savings, Worker's Monthly Payment	After Tax Savings, Worker's Monthly Payment	Family's Payment (after tax savings) as a Percent of Income
100%	\$20,650	\$0	\$0	0.0%
200%	\$41,300	\$155	\$121	3.5%
300%	\$61,950	\$310	\$219	4.2%
400%	\$82,600	\$448	\$308	4.5%
500%	\$103,250	\$448	\$288	3.3%